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FM AMEMBASSY CARACAS
TO RUEHC/SECSTATE WASHDC 2982
INFO RUEHHH/OPEC COLLECTIVE
RUEHAC/AMEMBASSY ASUNCION 0993
RUEHBO/AMEMBASSY BOGOTA 7986
RUEHBR/AMEMBASSY BRASILIA 6134
RUEHLP/AMEMBASSY LA PAZ 2884
RUEHPE/AMEMBASSY LIMA 1167
RUEHSP/AMEMBASSY PORT OF SPAIN 3699
RUEHQT/AMEMBASSY QUITO 2981
RUEHSG/AMEMBASSY SANTIAGO 4111
RUEHDG/AMEMBASSY SANTO DOMINGO 0639
RHEHNSC/NSC WASHDC
RHEHAAA/WHITEHOUSE WASHDC
RHEBAAA/DEPT OF ENERGY
RUCPDOG/DEPT OF COMMERCE
RUEATRS/DEPT OF TREASURY
RUMIAAAA/HQ USSOUTHCOM MIAMI FL

C O N F I D E N T I A L SECTION 01 OF 02 CARACAS 000545

SIPDIS

ENERGY FOR CDAY AND ALOCKWOOD, DOE/EIA FOR MCLINE
HQ SOUTHCOM ALSO FOR POLAD
TREASURY FOR RJARPE
COMMERCE FOR 4332/MAC/WH/JLAO
NSC FOR RKING

E.O. 12958: DECL: 04/30/2019
TAGS: [EPET](#) [EINV](#) [ENRG](#) [ECON](#) [VE](#)
SUBJECT: PDVSA TO PURCHASE WILLIAMS' PLANTS

REF: A. CARACAS 428
[B](#). CARACAS 362
[C](#). CARACAS 288
[D](#). CARACAS 136

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Classified By: Economic Counselor Darnall Steuart, for reasons 1.4 (b) and (d).

[1](#)1. (C) SUMMARY: PDVSA intends to nationalize William's El Furrial and PIGAP II high-pressure gas injection plants but does not have the resources to pay Williams. As both of the projects involve OPIC financing, there is significant USG interest in the transaction estimated to be worth \$500 million. If PDVSA goes into default on May 7 with the El Furrial project, it will likely lose financing from the Italian-owned SACE Group for its proposed PIGAP III project. Williams expects PDVSA's outstanding \$100 million in arrears will be included in any future settlement. PDVSA's default on the separate SIMCO project operated by Wood Group has not progressed to either a nationalization or expropriation. END SUMMARY.

[1](#)2. (C) PDVSA Vice President Eulogio del Pino told Williams Country Manager, Teresa Palacios (strictly protect throughout) on April 27 that PDVSA intends to purchase the Williams-operated El Furrial and PIGAP II high-pressure gas injection plants in Eastern Venezuela (See Ref B for background on the projects and default timeline). Palacios met with PDVSA officials in Maturin on April 28 to discuss a timeline and the details of the purchase. She characterized the discussions as demonstrating a "mis-alignment." PDVSA wants to take over the plants, but has neither the cash to pay for them nor \$100 million to clear outstanding arrears to Williams. (NOTE: On April 29, Williams announced a \$241 million charge for its operations in Venezuela, saying it does not expect the GBRV to pay moneys it owes and that it now classifies the long-lived assets in the country as

impaired.) PDVSA officials told Palacios that they have "some interesting proposals for payment" but did not share any details.

13. (C) PDVSA negotiators told Palacios that they would like to conclude the transfer by May 7, the end of Williams' 30-day default notice period on the El Furrial project (NOTE: Williams delivered a 30-day default letter on El Furrial to PDVSA on April 7. It sent a default letter on PIGAP II to PDVSA on April 22, which will expire on May 22. PDVSA made some minimal payments to Williams' Accroven project allowing it to continue on life support a bit longer.)

14. (C) Both the El Furrial and PIGAP II projects involve OPIC financing. Palacios shared that the SACE Group (the Italian insurer on PIGAP II) is in negotiations with PDVSA to finance PIGAP III, a 100% Venezuelan project. The SACE Group representatives apparently told PDVSA that if PIGAP II went into default, there would be no deal on PIGAP III.

15. (C) Williams' situation closely mirrors that of Wood Group which operates the SIMCO project in Western Venezuela (reftels). PDVSA has been in default with SIMCO since the beginning of March but has neither reached agreement with Wood Group for the transition of operational control of SIMCO assets, nor for compensation for the assets to Wood Group or payment of outstanding arrears. According to SIMCO's General Manager, Dave Beacham (strictly protect throughout), a Wood Group expatriate, as of April 30, there had been no changes to the situation since early March. Wood Group continues operating SIMCO while PDVSA is in default.

16. (C) COMMENT: The difference between a nationalization and

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expropriation of Williams' assets lies in whether PDVSA pays Williams. As the GBRV has failed to conclude other nationalizations, and PDVSA is estimated to have upwards of \$8 billion in pending arrears with service companies and has not paid 2008 dividends to its oil company partners, it is highly likely that they will not pay Williams for these plants. By losing Williams' expertise in operating and maintaining these high technology facilities, PDVSA stands to see a significant hit on production in the short-medium term.

Also, it is likely that this episode will negatively affect PDVSA's potential new bond issuance. On the other hand, the example of PDVSA's default on the SIMCO operations demonstrates that this issue could drag on for some time with no resolution forthcoming, leaving the private companies hanging in the balance.

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